

#### Internal Revenue Service

Partnership for Compliance
Tax Sheltered Annuities



# 403(b) & Voluntary Compliance

- $\checkmark$  Examinations -403(b)/457
  - Focused and directed work plan
  - Consistent approach
- Customer Education and Outreach
- **✓** Correction Program
  - EPCRS: Rev. Procedure 2001-17



# Measurement of Efforts Changes in Behavior

- **y** Employers − Pro-active Involvement
- ✓ More use of full service vendors
- ▼Use of hold harmless agreements
- **∀**Providers Enhanced Service



### The Primary Defects

- **From:** 
  - Exams
  - Walk-Ins
- $\checkmark$  The new law how will it help?
- **▼EGTRRA** born June 2001



# Maximum Exclusion Allowance

- **▼** Excesses
- **∀** EGTRRA
  - No more MEA
  - No more catch-ups



# Maximum Exclusion Allowance - The Biggest Change

- ✓ Started in 1958
- **▼**Ended in 2001
- **▼**Beginning 1-1-2002 no more computation



## Employer Allocations – 415 Excesses

- ✓ Lesser of 25% of compensation or \$35,000
- **∀**EGTRRA
  - Lesser of 100% of includible compensation or \$40,000
  - Higher limits = less defects



### Compensation Caution

✓ Compensation = Old definition of includible compensation = Most recent one year period of service



# Uncorrected Elective Deferral Excesses

- $\checkmark$  Salary reductions of > \$10,500
- **▼EGTRRA**: \$11,000 \$15,000
- ✓ Age 50 or older add \$1,000 \$5,000
- ∀ Higher limits = less defects
- **Y** Potential in 2006
  - \$20,000 of elective deferrals



#### Elective Non-Discrimination

✓ Defect – Failing to provide universal availability of salary reduction opportunities

**▼**EGTRRA – No change



# Violation of Access Restrictions

- **▼**Taking distributions
  - Before age 59  $\frac{1}{2}$
  - Before leaving service
  - Etc.
- **▼**EGTRRA No change



### Anticipated 457 Defects

- **√**457(b) dollar excesses > \$8,500
  - (includes electives and non-electives)
- ✓ Excesses due to 457(b)/403(b) coordinated limits
- ✓ EGTRRA dollar limit raised
  - -\$11,000 \$15,000 + age 50 extra \$'s
- ▼ Coordination limits repealed



#### 2006 Potential Deferral

 $\checkmark 403(b) + 457(b)$  Up to:

\$43,000



#### EGTRRA Effective Date

- ✓ Years after 12/31/2001
- **∀**Exception:
  - Defined benefits amount previously excludible for MEA computation – gone after 12/31/1999
- **✓** Caution: Exam realities



#### But There's More...

# Additional EGTRRA Tax-Sheltered Annuity Highlights:



## Purchase of Past Service Credits

- ✓ In-service asset transfers to statedefined benefit plans:
  - from:
    - 403(b)
    - 457(b)



# Aggregation of Multi-Plan Limits

- ✓ 415 employer allocations combining403(b) and 401(a) plans
- ∀When: Participant's control of organization



### Separation from Service

#### Now:

- **✓** Severance of employment
- ✓ Same desk rule gone



# After Leaving Service

▼ Employer contributions for participant for up to five years after leaving service



### **Expanded Portability**

- ✓ New 403(b), 457(b) (governmental plans) rollover rights
- **∀**But remember :
  - No access = No rollover



#### **EPCRS** - Corrections

- **▼**Revenue Procedure 2001-17
  - SCP - VCT Employers
  - VC Group Providers
  - Audit CAP
- ✓ Not Applicable to 457



#### EGTRRA & Corrections

- **✓** MEA Excesses
- **✓** Administrative Procedures



# READ THE NEW PUBLICATION 571



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# IRC 403(b) The END